BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2003-355-E - ORDER NO. 2003-740

DECEMBER 22, 2003

IN RE:	Docket No. 2003-355-E – Application of South Carolina Generating Company, Inc. for Authority to Enter into a Master Note Agreement to Defray the Cost of Certain Capital Expenditures.	)))))	ORDER GRANTING APPLICATION

1. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the "Commission") by way of an Application filed on December 8, 2003, by South Carolina Generating Company, Inc. ("GENCO"). The Application was filed pursuant to S.C. Code Ann. §58-27-1710 (1976), for power and authority for GENCO to enter into a Master Note Agreement (the "New Note Agreement") with Prudential Insurance Investment Management, Inc., or a subsidiary or affiliate thereof ("Prudential"), providing for the issuance thereunder from time to time of not exceeding One Hundred Million Dollars ($100,000,000) of senior secured notes (the "New Notes"), and to enter into modifications and amendments from time to time thereto and to the Note Agreement dated August 21, 1992 ("Existing Note Agreement") between GENCO and Prudential, in connection therewith. The proceeds from the sale of the New Notes, together with internally generated funds, will be applied to finance the cost of additional construction expenditures in the amount of approximately $37 million and repay advances and other capital contributions for such purposes, aggregating approximately $78 million as of September 30, 2003. Such advances and other capital contributions made by SCANA Corporation, a South Carolina corporation ("SCANA") and by South Carolina Electric & Gas Company, a South Carolina corporation ("SCE&G") through the utility money pool ("Utility Money Pool") approved by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended.

FINDINGS OF FACT

2. BUSINESS

GENCO is a wholly-owned subsidiary of SCANA and an affiliate of SCE&G. SCE&G is an electric utility operating in the State of South Carolina serving the central, southern and southwestern portions of the State with electric service, and it also furnishes natural gas service to the cities of Columbia and Charleston, South Carolina, their respective environs and to other communities and certain industrial customers. GENCO owns and operates the Arthur M. Williams generating station (the "Plant"). Pursuant to a Unit Power Sales Agreement, SCE&G purchases from GENCO all of the power generated by the Plant. In Docket No. 92-391-E, the Commission authorized GENCO to enter into the Existing Note Agreement to refinance certain existing long-term debt and finance additional construction expenditures. The principal amount currently outstanding under the Existing Note Agreement is $37.8 million.

3. ADDITIONAL CONSTRUCTION EXPENDITURES

GENCO proposes to borrow from Prudential under the New Note Agreement up to an additional $100 million principal amount to defray a portion of the cost of construction and installation of selective catalytic reduction equipment and certain other equipment at the Plant. This equipment will be capable of reducing Nitrous Oxide ("NOx") emissions by up to 90%. In 1998 the United States Environmental Protection Agency and, subsequently, the South Carolina Department of Health and Environmental Control ("DHEC") required that SCANA reduce NOx emissions from its coal-fired generating facilities during the summer months. The State Implementation Plan developed by DHEC to address this requirement limits the number of NOx tons that GENCO may emit during ozone season (May through September). GENCO's capital expenditures including the NOx reduction and other related environmental expenditures in 2001, 2002, and through September 30, 2003, have totaled approximately $80 million, substantially all of which expenditures have been funded through advances and other contributions from SCANA and the Utility Money Pool. From October 1, 2003, through December 31, 2004, GENCO expects to spend an additional $37 million to reduce NOx emissions.

4. STRUCTURE OF THE TRANSACTION

The proposed transaction is intended to provide permanent financing for certain construction costs described above and to reimburse SCANA and the Utility Money Pool for amounts previously advanced to GENCO for such construction costs. The structure of the transaction would be similar to the structure of the Existing Note Agreement and would maintain the same relationships among SCE&G, GENCO, SCANA and the lender (Prudential) as currently found under the Existing Note Agreement.

A. New Note Agreement and New Notes

The proposed New Note Agreement provides for the issuance thereunder from time to time of New Notes having a maturity of up to twenty (20) years bearing interest at the United States Treasury rate corresponding to the weighted average life of the New Notes plus a spread ranging from 110 to 128 basis points (1.10% to 1.28%) per annum, depending upon the weighted average life of the New Notes as determined by Prudential and agreed to by GENCO at or about the time of issuance of the New Notes, with quarterly or semiannual interest payments and annual amortization of the principal amount in amounts to be negotiated by GENCO.

B. The Mortgage and Security Agreement

To secure its obligations under the New Note Agreement and the New Notes, GENCO would give Prudential a Mortgage and Security Agreement on the operating properties of the Plant or amend the Mortgage and Security Agreement, dated August 21, 1992, between GENCO and Prudential, which secures the Existing Note Agreement. The New Notes shall be *pari passu* with amounts outstanding under the Existing Note Agreement and shall not be structurally subordinated to any other indebtedness, including the outstanding balance under the Existing Note Agreement.

C. The Inducement Letter.

In recognition of the fact that SCE&G would benefit from the long-term financing of the Plant, which SCE&G operates for GENCO under the Operating Agreement and from which SCE&G purchases all of its electric power output through a Unit Power Sales Agreement, SCE&G would enter into an Inducement Letter with Prudential stating, among other things, that it will maintain for the term of the New Notes the Unit Power Sales Agreement and the Operating Agreement.

D. The Title Indemnity Agreement.

SCE&G would enter into a Title Indemnity Agreement, or amend the Title Indemnity Agreement, dated August 21, 1992, between SCE&G and Prudential, that essentially provides to Prudential the benefit of SCE&G's existing obligations under its General Warranty Deed of Conveyance of 1984 by which it transferred the Plant to GENCO.

E. The Subordination Agreement.

SCANA would enter into a Subordination Agreement, or amend the Subordination Agreement, dated August 21, 1992, between GENCO and Prudential, providing that in certain instances the indebtedness of GENCO to SCANA would be subordinated to GENCO's obligations and indebtedness to Prudential under the New Note Agreement and the outstanding New Notes.

F. SCANA Guarantee.

SCANA would also enter into a Guarantee Agreement guaranteeing the obligations of GENCO to the holders of the New Notes.

5. COMPLIANCE WITH ORDER NO. 91-72

In compliance with the provisions of Order No. 91-72 dated January 18, 1991, Docket No. 91-032-E, GENCO has submitted financial statements and information required by the Order.

CONCLUSIONS OF LAW

1. GENCO should be authorized to negotiate the terms of and to enter into a New Note Agreement and modifications from time to time thereto and to the Existing Note Agreement, and the related instruments, including the New Notes, with such changes as GENCO deems advisable, in the principal amount of not exceeding One Hundred Million Dollars ($100,000,000) having a final maturity not exceeding twenty (20) years from the date of issue, with the interest rates described herein, providing for annual reduction of the principal amount of indebtedness payable in each year in amounts negotiated by GENCO.

2. GENCO should be authorized and empowered from time to time to negotiate the terms of the transaction as described in the Application and to make such changes in the instruments and negotiate and to enter into such other related or supplemental agreements as are reasonably necessary to consummate the transactions described in the Application, or hereafter to maintain or preserve such transactions, and to enter into any modifications, amendments and extensions thereto. GENCO proposes to file with the Commission conformed copies of the instruments and any amendments, modifications and extensions thereto in the final forms in which they are executed.

3. Approval of this Application does not bind the Commission as to the ratemaking treatment of this issuance.

4. This Order shall not, in any way, affect or limit the right, duty or jurisdiction of the Commission to further investigate and order revisions, modifications or changes with respect to any provision of this Order in accordance with the law.

5. The maximum amount of borrowings as proposed is reasonably necessary for the purpose for which it is to be issued as described above, and the character of same.

6. The financial condition of GENCO is shown by financial statements attached to the Application and by other records of the Commission relating to GENCO.

After review by the Commission Staff and upon full consideration by the Commission, the Commission is of the opinion, and so finds, that the matters set forth in the Application and the exhibits thereto are proper; that the purpose of the proposed entering into of the New Note Agreement and other documents incidental thereto and the proposed use of the proceeds by the Company of the New Notes are proper; and that the proposal to issue the New Notes is reasonable and proper.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

1. That GENCO be, and it hereby is, authorized to negotiate and carry out the terms of the transactions as described above.

2. That approval of this Application does not bind the Commission as to the ratemaking treatment of this issuance.

3. That this Order shall not, in any way, affect or limit the right, duty or jurisdiction of the Commission to further investigate and order revisions, modifications or changes with respect to any provisions of this Order in accordance with the law.

4. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Mignon L. Clyburn, Chairman

ATTEST:

Bruce F. Duke, Deputy Executive Director

(SEAL)